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**gregory industries limited**

**ANNUAL REPORT**

**1975**

# gregory industries limited

## Board of Directors:

WILLIAM E. DONNELLY, Executive Vice-President, Cornat Industries Limited, Vancouver, B.C.

W. GRANT GERRARD, Secretary Treasurer, Gregory Industries Limited, Vancouver, B.C.

PETER J. GREGORY, President, Gregory Industries Limited, Vancouver, B.C.

CYRIL H. MACRAE, Retired, Vancouver, B.C.

GEORGE L. MALPASS, Vice-President, Gregory Industries Limited, West Vancouver, B.C.

JOHN P. SULLIVAN, Mill Manager, Acorn Forest Products Ltd., Vancouver, B.C.

## Officers:

PETER J. GREGORY, President and Chief Executive Officer

W. GRANT GERRARD, Secretary-Treasurer and Chief Financial Officer

GEORGE L. MALPASS, Vice-President and General Manager

## Transfer Agent and Registrar:

THE CANADA TRUST COMPANY, Vancouver, B.C.

## Shares Listed:

VANCOUVER STOCK EXCHANGE

## Banker:

THE ROYAL BANK OF CANADA

## Solicitors:

MCTAGGART, ELLIS & COMPANY, Vancouver, B.C.

## Auditors:

PEAT, MARWICK, MITCHELL & CO., Vancouver, B.C.

## Head Office:

1283 - 595 Burrard Street,

P.O. Box 49172, Bentall Centre,

Vancouver, B.C. V7X 1K8

TELEPHONE: (Area Code 604) 687-9651      TELEX: 04-55410

## Registered Office:

Ste. 800 - 885 Dunsmuir Street,

Vancouver, B.C.

## Wholly-Owned Subsidiary Companies:

ACORN FOREST PRODUCTS LTD., Delta, B.C. & Whitehorse, Yukon

ANACORTES LUMBER INC., Anacortes, Washington, U.S.A.

FIELD SAWMILLS LTD., Courtenay, B.C.

GREGORY PANELING LIMITED, Burnaby, B.C.



## DIRECTORS' REPORT

To The Members

Sales for the year ended December 31, 1975, were \$6,084,535 compared with \$6,789,420 for the previous year 1974. The operating loss for 1975 before extraordinary items was \$485,056 (47¢ per share) compared with a \$1,206,299 (\$1.17 per share) operating loss in 1975. The net loss for 1975 after an extraordinary loss of \$82,192 connected with the Yukon operation, was \$567,248 compared with a net profit of \$1,179,938 for 1974 after an extraordinary gain of \$2,386,237 in that year as a result of selling a sawmill.

1975 proved to be a very difficult year for the Company. Prolonged labor disruptions coupled with a world wide recession in all major lumber markets resulted in management re-appraising all Company operations. It was decided to write down the investment in the Yukon operation to the net realizable break-up value. This sawmill, closed since 1974, will be sold, and the Company will cease operations in the Yukon.

Acorn's Delta and Field's Courtenay sawmills were improved during the year to capitalize on the improving lumber markets.

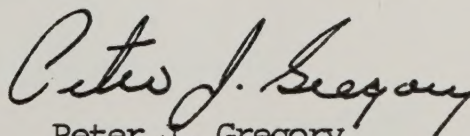
The Company started a new business in 1975 by entering the lumber remanufacturing field in Burnaby, B.C. through a wholly owned subsidiary Gregory Paneling Limited. This plant is now operating two shifts selling mainly in Germany. Further expansion is anticipated to serve the do-it-yourself (DIY) paneling market in North America.

Plans for the Company's proposed new plant in Anacortes, Washington are still being held up pending site preparation.

As at December 31, 1975, the Company employed 202 people whose 1975 wages, salaries and benefits totaled \$2,694,183 compared with \$3,203,261 for the previous year 1974.

The outlook for 1976 is for improved market conditions and fewer labor disruptions. The Company will operate at a profitable level for the first quarter and could have the best operating year in its history.

Respectfully submitted on behalf of the Board,



Peter J. Gregory  
Chairman

April, 1976.





# PEAT, MARWICK, MITCHELL & CO.

CHARTERED ACCOUNTANTS

Suite 2100, One Bentall Centre  
505 Burrard Street  
Vancouver, British Columbia  
V7X 1M1

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Gregory Industries Limited and subsidiaries as of December 31, 1975 and the consolidated statements of earnings and earnings reinvested in the business and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Peat, Marwick, Mitchell & Co.*

Vancouver, British Columbia  
March 3, 1976

Chartered Accountants





## GREGORY INDUSTRIES LIMITED AND SUBSIDIARIES

## Consolidated Balance Sheet

December 31, 1975

(With comparative figures for 1974)

	<u>Assets</u>	
	<u>1975</u>	<u>1974</u>
Current assets:		
Cash	\$ -	52,961
Short-term investments	-	600,000
Accounts receivable	1,125,815	975,501
Inventories (Note 2)	1,687,428	1,080,625
Prepaid expenses and deposits	<u>112,716</u>	<u>92,363</u>
Total current assets	2,925,959	2,801,450
Investments, at cost	42,818	11,701
Property, plant and equipment (Note 3)	1,924,169	1,544,101
Deferred expenses	<u>-</u>	<u>129,073</u>
	<u>\$ 4,892,946</u>	<u>4,486,325</u>
	<u>Liabilities and Shareholders' Equity</u>	
Current liabilities:		
Bank indebtedness (Note 4)	\$ 1,093,088	206,528
Accounts payable and accruals	959,581	619,707
Income and logging taxes payable	-	1,879
Long-term debt due within one year	<u>213,722</u>	<u>438,453</u>
Total current liabilities	2,266,391	1,266,567
Long-term debt (Note 5)	889,573	493,536
Deferred income taxes	-	421,992
Shareholders' equity:		
Share capital:		
Common shares of no par value. Authorized		
2,040,000 shares; issued 1,030,928 shares	400,214	400,214
Earnings reinvested in the business (Note 6)	<u>1,336,768</u>	<u>1,904,016</u>
Total shareholders' equity	1,736,982	2,304,230
Commitments (Note 7).	<u>-</u>	<u>-</u>
	<u>\$ 4,892,946</u>	<u>4,486,325</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Arthur J. Gregory Director W. E. Leonard Director





GREGORY INDUSTRIES LIMITED AND SUBSIDIARIES


Consolidated Statement of Earnings and Earnings Reinvested in the Business

Year ended December 31, 1975

(With comparative figures for 1974)

	<u>1975</u>	<u>1974</u>
Sales	\$ 6,084,535	6,789,420
Expenses and charges:		
Cost of lumber sold	5,215,520	7,456,635
Selling and administration	1,201,334	859,770
Depreciation and amortization	211,814	111,615
Amortization of deferred expenses	30,000	60,527
Interest on long-term debt	110,128	344,884
Other interest (income)	(29,127)	(45,924)
Loss (gain) on disposal of property, plant and equipment	<u>(8,965)</u>	<u>140</u>
	<u>6,730,704</u>	<u>8,787,647</u>
Loss before income taxes and extraordinary items	646,169	1,998,227
Income taxes:		
Current (refundable)	3,357	(747,828)
Reduction in deferred income taxes	<u>(164,470)</u>	<u>(44,100)</u>
	<u>(161,113)</u>	<u>(791,928)</u>
Loss before extraordinary items	485,056	1,206,299
Extraordinary items (Note 8)	<u>82,192</u>	<u>(2,386,237)</u>
Net loss (earnings) for the year (Note 9)	567,248	(1,179,938)
Earnings reinvested in the business at beginning of year	<u>1,904,016</u>	<u>724,078</u>
Earnings reinvested in the business at end of year (Note 6)	\$ <u><u>1,336,768</u></u>	<u><u>1,904,016</u></u>

See accompanying notes to consolidated financial statements.



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## GREGORY INDUSTRIES LIMITED AND SUBSIDIARIES

## Consolidated Statement of Changes in Financial Position

Year ended December 31, 1975

(With comparative figures for 1974)

	<u>1975</u>	<u>1974</u>
Funds provided:		
Long-term debt financing	\$ 628,644	-
Proceeds from disposal of property, plant and equipment (less applicable income taxes of \$732,462 in 1974)	<u>53,850</u>	<u>6,223,425</u>
Total funds provided	<u>682,494</u>	<u>6,223,425</u>
Funds applied:		
To current operations:		
Loss before extraordinary items	485,056	1,206,299
Less items not involving funds	<u>75,936</u>	<u>165,822</u>
Funds applied to current operations	409,120	1,040,477
Purchase of property, plant and equipment	859,949	1,793,887
Reduction of long-term debt	232,607	1,886,198
Increase in investments	31,117	11,701
Other	<u>25,016</u>	<u>-</u>
Total funds applied	<u>1,557,809</u>	<u>4,732,263</u>
Increase (decrease) in working capital	(875,315)	1,491,162
Working capital at beginning of year	<u>1,534,883</u>	<u>43,721</u>
Working capital at end of year	\$ <u><u>659,568</u></u>	<u><u>1,534,883</u></u>

See accompanying notes to consolidated financial statements.





GREGORY INDUSTRIES LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 1975

1. Significant accounting policies:

Principles of consolidation:

The consolidated financial statements include the accounts of the company and all its subsidiaries:

Operating subsidiaries:

Acorn Forest Products Ltd.

Gregory Paneling Ltd. (formerly Acorn Timber Ltd.)

Field Sawmills, Ltd.

Non-operating subsidiary:

Anacortes Lumber, Inc.

All material inter-company transactions have been eliminated.

Inventories:

Inventories are valued at the lower of cost and net realizable value.

Cost is determined on the first-in, first-out (FIFO) basis.

Depreciation:

Depreciation on property, plant and equipment has been recorded on the straight-line method over their estimated useful lives using the following rates:

Buildings, yards and dock	5%
Mill and office equipment and booming grounds improvements	10%
Automotive equipment and boom boats	20%

Additions and betterments are capitalized and expenditures for maintenance and repairs are charged to expense. When depreciable assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in earnings.

Deferred expenses:

Pre-development and start-up expenses are amortized over a five year period.

The unamortized balance of these expenses at December 31, 1975 of \$99,073 was not considered by management to be of value and was written off.

Income taxes:

The company follows the tax allocation basis of accounting for income taxes. Taxes deferred to future years as a result of claiming for tax purposes amounts different from those recorded in the accounts are charged against current earnings and are recorded in the balance sheet as deferred income taxes. At December 31, 1975 the timing differences were wholly covered by available losses and no reserve for deferred taxes was required.

2. Inventories:

Inventories are classified as follows:

	<u>1975</u>	<u>1974</u>
Logs	\$ 409,194	377,621
Lumber	827,309	623,297
Chips and sawdust	<u>450,925</u>	<u>79,707</u>
	<u>\$ 1,687,428</u>	<u>1,080,625</u>





## GREGORY INDUSTRIES LIMITED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, continued

December 31, 1975

## 3. Property, plant and equipment:

	<u>1975</u>	<u>1974</u>
At cost less depreciation and amortization:		
Buildings (including buildings on leased land)	\$ 440,357	502,753
Equipment	1,716,326	1,349,071
Leasehold improvements	<u>44,122</u>	<u>-</u>
	2,200,805	1,851,824
Less accumulated depreciation and amortization	<u>697,010</u>	<u>538,103</u>
	1,503,795	1,313,721
Land	<u>220,374</u>	<u>230,380</u>
	1,724,169	1,544,101
At estimated net realizable value:		
Buildings and equipment	<u>200,000</u>	<u>-</u>
Total property, plant and equipment	\$ <u><u>1,924,169</u></u>	<u><u>1,544,101</u></u>

## 4. Bank indebtedness:

The bank indebtedness is secured by an assignment of accounts receivable and a charge on inventories, together with a second floating charge debenture on all other assets.

## 5. Long-term debt:

	<u>1975</u>	<u>1974</u>
Loan agreements, repayable in monthly instalments of \$5,750 plus interest at $11\frac{1}{4}\%$ , maturing in 1981 and 1982; secured by a demand debenture of \$2,500,000 giving a first fixed charge on all property, plant and equipment and a first floating charge on all other assets of Acorn Forest Products Ltd.	\$ 448,800	220,600
Loans repayable in equal monthly instalments plus interest at 10.1% to 13.0%, maturing at various dates to 1984; secured on the following assets of Field Sawmills, Ltd.; a first mortgage on land and buildings and a debenture giving a fixed charge on all sawmill machinery and equipment and a floating charge on all other assets	424,751	151,750
Agreement payable in quarterly instalments of \$11,750 plus interest at $9\frac{1}{4}\%$	141,000	188,000
Other indebtedness and conditional sales contracts, repayable in monthly instalments, secured by charges on certain equipment	88,744	71,639
Bank loan repayable on February 28, 1975	<u>-</u>	<u>300,000</u>
	1,103,295	931,989
Less amounts due within one year	<u>213,722</u>	<u>438,453</u>
	\$ <u><u>889,573</u></u>	<u><u>493,536</u></u>





GREGORY INDUSTRIES LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

December 31, 1975

5. Long-term debt, continued:

Maturities of long-term debt are as follows:

1977	\$ 196,000
1978	195,000
1979	138,000
1980	119,000

6. Restriction on cash dividends:

Under the terms of certain loan agreements (Note 5), the company is restricted from payment of dividends, unless permission of the lender is obtained.

7. Commitments:

The company and its subsidiaries are obligated under long-term lease agreements for aggregate basic annual rentals of approximately:

1976	\$ 79,000
1977	68,000
1978	24,000
1979	17,000

8. Extraordinary items:

	<u>1975</u>	<u>1974</u>
Write-down of the net book value of buildings and equipment of Yukon sawmill division to its estimated net realizable value, determined by management	\$ 240,641	-
Unamortized pre-development and start-up expenses of Yukon sawmill division written off	99,073	-
Gain on sale of property, plant and equipment	<u>-</u>	<u>(3,118,699)</u>
	339,714	(3,118,699)
Less applicable income taxes (reduction in deferred income taxes)	<u>(257,522)</u>	<u>732,462</u>
	\$ <u>82,192</u>	<u>(2,386,237)</u>

9. Earnings per share:

	<u>1975</u>	<u>1974</u>
Loss before extraordinary items	\$ 0.47	1.17
Extraordinary loss (income)	<u>0.08</u>	<u>(2.31)</u>
Net loss (earnings) for year	\$ <u>0.55</u>	<u>(1.14)</u>



GREGORY INDUSTRIES LIMITED AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

December 31, 1975

10. Income taxes:

At December 31, 1975 the company and subsidiaries had tax losses of approximately \$1,260,000 available for the reduction of income taxes in the future. These losses will expire in the following years:

1976	\$ 33,000
1977	13,000
1978	36,000
1979	479,000
1980	699,000

11. Statutory information:

The remuneration of directors and senior officers, as defined by the British Columbia Companies Act, amounted to \$164,369 (1974 - \$156,410).

Accounts receivable includes \$35,550 (1974 - \$23,746) due from officers who are directors.







